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COMMISSIONER-CHAIRMAN

RENZ D. JENNINGS
COMMISSIONER

CARL J. KUNASEK
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ARIZONA CORPORATION COMMISSION

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Summary of Statements of Policy

Loans and Other Material Affiliated Transactions	♦ Consistent with the proposed NASD corporate governance provisions for Small Cap Stocks. The Policy requires independent directors if there have been or will be material affiliated transactions. ♦ Requires that all future material affiliated transactions be ratified by a majority of the disinterested independent directors who have access, at the issuer's expense, to the issuer or independent counsel.
Options and Warrants	♦ Proposed ammendements would limit the total number of options and warrants issued or reserved for issuance to 15% of the post-offering shares to be outstanding. Excluded from the 15% figure would be options and warrants: 1) issued to non-promoters pursuant to incentive stock option plans: and 2) options and warrants with exercise prices in excess of the public offering price. ♦ Options and warrants, excluding those issued to non-promoters pursuant to incentive stock option plans, must be exercisable no later than 5 years from the effective date of offering.

Summary of Statements of Policy

Underwriting Expenses Underwriting Warrants Selling Expenses, and Selling Security Holders	♦ Underwriting expenses calculated consistent with NASD regulations and capped at 17% of offering proceeds. ♦ Cash selling expenses limited to 20% of the offering proceeds. ♦ Underwriter's warrants limited to 10% of the shares sold in the offering and must be exercised within 5 years of completion of offering. ♦ Selling security holders selling more than 10% of the shares sold in the offering must pay a pro rata share of all selling expenses, exclusive of legal and accounting fees. Above 50%, selling security holders must pay a pro rata share of all selling expenses.
Promoter's Equity Investment	♦ Offerings by promotional or developmental stage companies must evidence sufficient promoters' equity investment calculated pursuant to the formula outlined in the policy.
Promotional Shares	♦ "Promotional Shares" as defined by Policy regarding Corporate Securities Definitions, must be escrowed with a third party escrow agent or subjected to a lock-in agreement. ♦ If revenues are $500,000 or more and the financial statements are not conditioned by a going concern opinion or footnote, shares may be released at the rate of 2 1/2% per quarter beginning year 1 from the completion of the offering with the remainder being released 2 years from the completion of the offering. ♦ Otherwise, shares may be released at the rate of 2 1/2% per quarter beginning 2 years from the completion of the offering with the remainder being released 4 years from the completion of the offering. ♦ Model escrow and lock-in agreement are available.

Summary of Statements of Policy

Impoundment of Proceeds	♦ Impound agent must be a financial institution unaffiliated with the issuer, underwriters, or promoters. ♦ Promoters and other insiders may purchase in the public offering to help meet the minimum offering amount if they purchase on the same terms as the public investors, the prospectus discloses that such purchases may occur, and the shares so purchased are escrowed or locked in pursuant to the terms of the Promotional Shares Policy Statements.
Use of Proceeds	♦ Requires a tabular presentation of the use of proceeds. ♦ Generally, no more than 15% of the proceeds can be reserved for working capital or general corporate purposes. ♦ Must demonstrate that the proceeds will be sufficient to sustain the issuer's proposed activities. ♦ If not firmly underwritten, the issuer must set a minimum offering amount consistent with the business plan set forth in the prospectus.
Unsound Financial Condition	♦ A company is deemed to be in "unsound financial condition" if it is a "going concern" opinion or footnote and one of four other factors: accumulated deficit, negative shareholder equity, inability to satisfy current obligations as the become due, or negative cash flow. ♦ If in unsound financial condition, the company may be required to submit pro forma financial information to the administrator demonstrating that the financial condition will improve as a result of the offering and discussing when profitability is expected to occur. ♦ Certain risk disclosures are required. ♦ Suitability requirements may be imposed.
Preferred Stock	♦ Offerings of non-convertible preferred stock must demonstrate a positive earnings-to-fixed charges-and-preferred-dividends ratio or positive cash flow from operating activities over the last 3 years. ♦ Any equity offering (not just offerings of preferred stock) may be disallowed if directors can issue preferred with a vote of the shareholders unless issuer represents that it will not offer preferred to promoters except on the same terms as it is offered to other shareholders or such issuance is approved by a majority of the independent directors.
Unequal Voting Rights	♦ Securities may not be offered with less than equal voting rights unless such securities have dividend and liquidation preferences or the offering is otherwise justified to the satisfaction of the administrator.